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SUBJECT: INDONESIAN SHERPA VIEWS IN ADVANCE OF G-20 MEETINGS

REF: SECSTATE 17502

11. (SBU) Summary: Indonesia's key objectives for the upcoming G-20 meetings are:

- Agreement on the rapid recapitalization of the multilateral development banks, even if governance reforms are delayed.
- Broader focus of G-20 deliberations beyond financial market instability to include the negative impact on the real economy.
- Recognition that developing countries may not have the capacity to implement stringent new financial and capital market reforms immediately, requiring flexibility in implementation.
- Possible linkage between the IMF Short-term Liquidity Facility (SLF) and regional programs such as the Chaing Mai Initiative (CMI).

President Yudhoyono has still not committed to attend the April 2 Summit. End Summary.

MDB REFORM URGENTLY NEEDED

12. (SBU) Indonesia G-20 Sherpa and Deputy Minister of the Coordinating Ministry for Economic Affairs Mahendra Siregar told Embassy on March 3 that reform of the multilateral development banks must proceed quickly. He argued that measures that allow the MDBs to recapitalize should be taken immediately with broader governance issues moving on a slower track if necessary. MDB recapitalization is needed to enable MDBs to raise additional resources and provide needed support to emerging markets in meeting the growing global downturn, he argued. Emerging countries, especially middle-income countries, face increasing difficulties in raising financing in capital markets in the current global environment. Indonesia proposes the establishment of a Global Expenditure Support Fund to assist countries in carrying out countercyclical spending.

IT'S MORE THAN A FINANCIAL CRISIS

13. (SBU) Siregar argued that the financial crisis has become a real-sector crisis. The G-20 must therefore broaden its focus beyond the financial sector to include broader policy responses consistent with medium- and long-term economic growth and development priorities. Siregar said that the

World Bank could provide important policy advice and financing to help developing countries stimulate their real economies. He said that the IMF is too narrowly focused on finance and the WTO is too legalistic and technical to provide the broad support needed by developing countries now.

FLEXIBLE IMPLEMENTATION NECESSARY

¶4. (SBU) Siregar said Indonesia recognizes financial and capital markets reforms are crucial to restoring confidence to markets. But he added there must be sufficient flexibility in their implementation. He fears that some of the reforms might be too rigid (or simply too sophisticated) for emerging markets to meet them.

"INDIRECT LINKS" WITH THE IMF

¶5. (SBU) Indonesia and other developing countries still find it politically difficult to go to the IMF for assistance, Siregar advised. Despite some significant IMF reforms, including development of new instruments such as the Short-term Liquidity Facility, Siregar said developing countries need an indirect link to make access to the IMF acceptable. For example, he suggested the IMF engage with CMI to consider creation of an indirect link to developing countries through the establishment of a special window providing IMF assistance to CMI-eligible countries without additional conditionality. This would allow countries like Indonesia to use IMF resources without risking a domestic backlash.

YUDHOYONO'S PARTICIPATION STILL NOT CONFIRMED

¶6. (SBU) Siregar said that President Yudhoyono has not yet committed to attend the G-20 London Summit on April 2 because of its proximity to Indonesia's April 9 legislative elections. He also expressed disappointment that the U.K. government had not consulted with Indonesia before inviting Thailand to attend the summit on behalf of ASEAN.

HUME